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Market Administrator's

BULLETIN

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MARKET ADMINISTRATOR

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Significant Relationship Noted Between Promotional Expenditures and Fluid Milk Sales

Economic Research Service — ERS-259

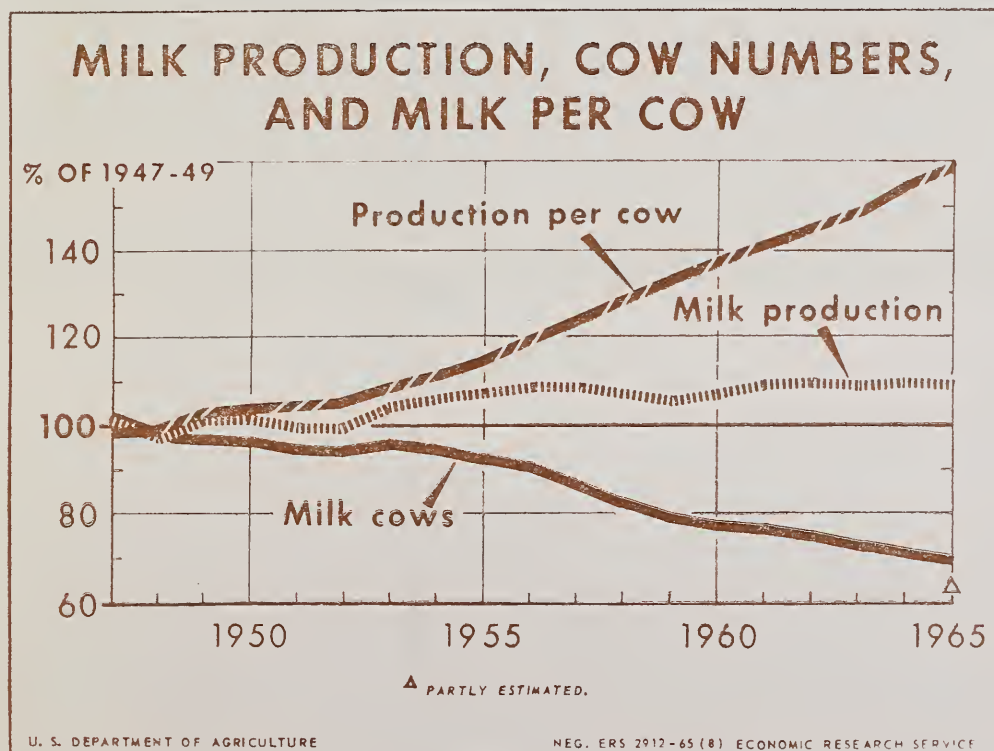
In a controlled experiment conducted over a 2-year period, significant relationships were found between promotional expenditures and sales of fluid milk. The experiment

was conducted in one State and five Federal Milk Order Markets in cooperation with the American Dairy Association. Three levels of expenditures were tested—the present level

of promotion by the Association (2 cents per capita annually), a medium level of promotion (15 cents per capita annually above present levels), and heavy promotion (30 cents per capita annually above present levels). Both levels of increased promotional expenditure increased sales of fluid milk to a statistically significant degree but they were not equally profitable. The medium level increased sales by an average of 13,000 pounds per day per market, or 4.5 percent, and heavy promotion increased sales by an average of 17,000 pounds per day per market, or 5.9 percent. These increases include the immediate effect of promotion and the enduring influence which carried over into the 6-month period immediately following promotion.

The added revenue to dairy farmers from the medium level of promotion was \$398,580. This figure represents the increased quantity of milk sold multiplied by the weighted average price differential between Class I and Class II milk in the six markets used in the study. The cost of achieving this increase—the total

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The average number of milk cows on U.S. farms has fallen every year from 21.7 million in 1953 to about 15.5 million in 1965. However, milk output per cow has trended upward, and, in the past decade, annual gains have averaged 220 pounds, the largest of any major milk-producing country. Since production rates have more than offset the decline in cow numbers, total milk production trended slowly upward from World War II to 1964. In 1965, favorable farm alternatives to dairying, improved off-farm opportunities, and drought in North-eastern States have interrupted the upward milk production trend.



Columbus

MARKET FACTS FOR EASY REFERENCE

PRICE SUMMARY

Producers' Uniform Price (3.5%)	
Class I (3.5%)	
Class II (3.5%)	
Class III (3.5%)	
Class IV (3.5%)	
Producer Butterfat Differential for each one-tenth percent	

Dec. 1965	Nov. 1965	Dec. 1964
\$4.83	\$4.90	\$4.76
4.92	4.79	4.92
3.36	3.36	3.18
—	—	—
—	—	—
7.3¢	8.0¢	8.1¢

UTILIZATION SUMMARY

Percent of Producer Milk in Class I	
Percent of Producer Butterfat in Class I	
Percent of Producer Milk in Class II	
Percent of Producer Butterfat in Class II	
Percent of Producer Milk in Class III	
Percent of Producer Butterfat in Class III	
Percent of Producer Milk in Class IV	
Percent of Producer Butterfat in Class IV	

82.7	87.6	82.2
76.7	82.6	76.1
17.3	12.4	17.8
23.3	17.4	23.9
—	—	—
—	—	—
—	—	—
—	—	—

PRODUCER MILK RECEIPTS

Total Pounds of Producer Milk Delivered	
Average Daily Class I Producer Milk	
Total Number of Producers	
Average Daily Receipts per Producer	
Average Butterfat Test	
Total Value of Producers Milk at Test	
Income per Producer (7 day average)	

45,459,868	43,731,417	45,414,336
1,256,260	1,320,470	1,203,808
1,615	1,642	1,672
908	888	876
3.88	3.79	3.94
\$2,244,651	\$2,113,313	\$2,238,649
\$313	\$300	\$302

GROSS CLASS USE (Pounds)

Class I Skim	
Class I Butterfat	
Class I Milk	
Class II Skim	
Class II Butterfat	
Class II Milk	

36,237,657	36,956,531	36,488,875
1,353,526	1,369,401	1,381,194
37,591,183	38,325,932	37,870,069
7,458,184	5,116,399	8,879,676
410,497	289,084	433,909
7,868,681	5,405,483	9,313,580

AVERAGE DAILY SALES (Quarts)

Milk	
Buttermilk	
Chocolate	
Skim	
Cream	

442,623	453,102	442,814
5,661	5,995	5,525
27,483	32,647	26,424
12,412	13,614	13,702
10,241	10,179	11,039

COMPARATIVE STATISTICS



COLUMBUS MARKETING AREA



DEC., 1956 - '65

Year	Receipts From Producers	Average Butter- fat Test	Percentage of Producer Milk in Each Class				Uniform Producer Price (3.5%)	Class Prices at 3.5%				Number of Producers	Daily Average Production
			Class I	Class II	Class III	Class IV		Class I	Class II	Class III	Class IV		
1956	23,637,293	3.88	81.0	9.7	3.3	6.0	4.21	4.365	3.965	3.965	3.236	1,966	388
1957	24,923,644	3.93	79.9	7.4	4.0	8.7	4.24	4.419	4.019	3.919	3.096	1,863	432
1958	23,204,810	4.01	85.1	8.8	1.9	4.2	4.30	4.401	4.001	3.901	2.977	1,712	437
1959	27,160,559	4.01	83.4	6.2	2.1	8.3	4.85	4.758	4.358	3.854	3.155	1,693	518
1960	28,880,166	3.97	79.8	6.2	1.7	12.3	4.79	4.782	4.382	4.063	3.092	1,545	603
1961	32,916,637	3.98	78.0	6.1	1.9	14.0	4.61	4.600	4.200	3.919	3.267	1,329	799
1962	35,463,855	3.98	78.0	5.6	2.0	14.4	4.36	4.310	3.890	3.670	3.050	1,332	859
1963	38,923,732	3.96	77.5	5.8	1.7	15.0	4.62	4.65	4.214	3.785	3.082	1,366	919
1964	45,414,336	3.94	82.2	17.8	—	—	4.76	4.92	3.18	—	—	1,672	876
1965	45,459,868	3.88	82.7	17.3	—	—	4.83	4.92	3.36	—	—	1,615	908

Milk Prices Up In 1965; Higher In 1966

The Dairy Situation, Economic Research Service USDA November 1965

Legal minimum support prices for manufacturing milk and butterfat are likely to rise slightly in marketing years 1966-67 (April-March) from the \$3.24 per 100 pounds for manufacturing milk (3.71 percent milkfat) and 59.4 cents per pound butterfat in 1965-66. Reasons include a prospective small rise in the parity index and an increase in the 10-year moving average of manufacturing grade milk prices used to calculate support levels. Actual support levels will be announced before April 1, 1966. As a result, prices farmers receive for milk and butterfat next year are also expected to increase slightly above 1965 levels. The low year-end stock level in 1965 and an expected lower gain in milk production than commercial disappearance will contribute to the expected increase.

Prices farmers receive for milk at wholesale in 1965 are expected to average about \$4.23 per 100 pounds, compared with \$4.16 in 1964. For January-October, the price of wholesale milk averaged \$4.17 per 100 pounds, about 6 cents above a year earlier. In October, prices ranged from 11 cents above a year earlier in the mid-Atlantic region to 5 cents below in the South Atlantic region.

Prices are rising seasonally, but increases in some areas have been limited by ample supplies of milk eligible for fluid use, relative to needs

for bottling. As a result, the September price of milk eligible for fluid use increased in all regions from 2 cents in the South Atlantic region to 15 cents in the West North Central region. Price increases in fall months usually arise from decline in milk receipts, which increase the proportion used for bottling, and seasonal increases in prices for milk used for bottling. Prices paid by dealers for milk used in bottling (Class I) during January-October 1965 averaged \$5.32 per 100 pounds, about the same as a year earlier. However, October prices averaged \$5.54 per 100 pounds, 5 cents above a year ago.

Prices farmers receive for milkfat are likely to average about 59.5 cents per pound in 1965 compared with 58.8 cents in 1964. However, the percentage increase was less than for the price of manufacturing grade milk. The improvement was due to a tight commercial supply situation, starting in August and likely to extend through November, and the higher support level for butterfat in 1965-66 than in 1964-65.

In 1965, prices farmers receive for manufacturing grade milk are expected to average about \$3.33 per 100 pounds, 7 cents above the 1964 average. Monthly prices for January-October have ranged from 5 cents to 10 cents above a year earlier. At last year's annual fat test (3.71 percent) average monthly prices for manu-

facturing grade milk this year have ranged from \$3.29 in July to \$3.38 in July to \$3.38 in October. The October average, at 3.71 percent milkfat, was 8 cents above a year earlier and 14 cents above the price support level. However, the October 1964 price was 18 cents above support.

The seasonal price rise this year have been near last years' rate, despite the slowdown in foreign interest in U.S. dairy products. U. S. supplies of dairy products this year are slightly lower than a year earlier, and domestic commercial demand is improved.

The August rise in manufacturing grade milk prices this year and last reflected the rise in Grade A wholesale butter prices, 2 cents at Chicago this year and 1.5 cents in August 1964. Practically no change had occurred in August 1961-63. Wholesale butter prices at New York and Chicago have been 2-4 cents above the USDA support price since August.

Nonfat dry milk prices f.o.b. factory averaged 14.8 cents per pound in September, and, as in 1964, are expected to continue near the support purchase price. American Cheddar-style cheese prices averaged about a half cent per pound over a year earlier in January-September, but in mid-October were at a year earlier level, about 2 cents above the support purchase price of 36.1 cents.

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THE
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SIGNIFICANT RELATIONSHIP . .

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amount spent for the medium level of promotion—was about \$237,530. Thus the net return to farmers was \$161,050, a return of 68 percent on their investment. The heavy level of promotion cost \$436,313 and produced \$521,220 in revenue. The net profit was \$84,907, a 19-percent return on the amount invested. Thus, of the two levels of expenditures considered, the medium level was optimal.

It should be noted that the net returns on the added promotional investments depend on the difference between Class I and Class II prices received by producers for delivered milk. These differentials, of course, vary considerably between markets, in some instances being higher than the differential used in this study and in other instances being lower. For the cities used in this study, the weighted break-even price differential, the price difference required before a profit is made, was \$1.32 per hundredweight for the medium level of promotion and \$1.85 per hundredweight for the heavy level. The break-even price will also vary among markets, depending upon per capita promotion costs and per capita consumption. All of these factors play an important role in appraising the profitability of promotion.

Market Quotations

DECEMBER
1965

MINNESOTA - WISCONSIN PRICE SERIES	\$3.47
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Columbus)	3.26
Average Price per lb. 92-score butter at Chicago	.6345
Average carlot prices non-fat dry milk solids roller and spray process, f.o.b. manufacturing plant	.1431

Retail Dairy Prices Unchanged; Other Prices Rise

The Dairy Situation, Economic Research Service • USDA November 1965

Retail dairy prices this year are averaging about the same as in 1964, although food prices as a group may be about 2 percent higher. Farmers are receiving nearly 2 percent more for milk and cream than last year; other farm prices as a group have gained even more. Lower increases at retail and farm levels than for other food products reflect the declining per capita demand for dairy products as a whole, relative to that for all food. Farm milk prices next year may be slightly above those of 1965, and distribution costs are expected to change little. Therefore, the level of retail dairy prices likely will rise only slightly from the 1965 average.

The Bureau of Labor Statistics (BLS) retail dairy products price index increased about 1 percent in 1964 to 104.7 (1957-59 — 100). For 1965, the index of dairy prices through August averaged 0.3 percent higher than a year earlier, mainly because of higher prices for butter, cheese,

and evaporated milk. Fluid milk prices reported by BLS are slightly below 1964 levels. Ice cream prices also are slightly lower in 1965. They began trending downward several years ago, due to changing distribution patterns.

Charges for marketing dairy products are averaging slightly below 1964, as measured by the spread between retail costs and farm value of the farm food "market basket." The dairy products group in the market basket includes fluid milk, ice cream, butter, cheese, and evaporated milk.

Farmers received an average of 44 cents of every dollar consumers spent for dairy products in the first 9 months of 1965, about the same as a year earlier. During 1954-63, the farmers share declined from 47 cents to 43 cents. The share probably will stay about 44 cents in 1966, unless changes in marketing charges and farm prices differ from those now anticipated.